Canadian Barranca Corporation Ltd.

ANNUAL REPORT 1979

Canadian Barranca Corporation Ltd.

Listed

CANADA	— Alberta Stock Exchange	—	CBR
	Vancouver Stock Exchange	—	CBR
U.S.A.	— NASDAQ	—	CBRCF

Price Range (Canadian)

	LOW	HIGH
1979	2.45	5.20
1980	3.75	6.10 (First quarter)

Officers & Directors

Edward K. Stephens, President
John M. Ballas, Managing Director and Secretary-Treasurer
Roderick A. McLennan, Director -Treasurer
Louis G. Grimble, Director
Robert H. Ohlson, Director

Transfer Agent

Guaranty Trust Company Of Canada
Calgary, Vancouver

Corporate Offices

505 - 12220 Stony Plain Road
Edmonton, Alberta T5N 3Y4
Telephone: (403) 482-2396

Auditors:

Deliotte Haskins & Sells
Edmonton, Alberta

To The Shareholders:

The company in the past year has made substantial progress in developing its properties, and in 1980 it is expected that two gold mines will be in production. Progress is also being made on its silver property.

The following events mark the Company's progress.

COSTA RICA

Santa Clara Gold Mine

The Company's major asset is its 40% interest in the open pit Santa Clara Gold Mine in Costa Rica located approximately 40 miles from San Jose.

Due to high costs of a conventional grinding and flotation mill (probably 20 million dollars,) United Hearne, its partner and 60% owner, has directed extensive geological and metallurgical studies through Wrights Engineers Ltd., A.R. McPherson Consultants Ltd., Ontario Research Corp., and the U.S. Department of Mines in Reno, Nevada and has found that a straight leaching process using Cyanidation and extraction of gold by carbon absorption indicated recovery rates of better than 80%. United Hearne further reports that the on-site Column leach testing is very successful, and all indications to date show that a 12 foot height of ore material percolates and leaches very successfully in 36 hours with 80% recovery. On site development is underway. The first pad is now under construction to hold over 1,000 tons of ore, the mill site is being cleared, two 1 million gallon water and solution tanks are being built, plant equipment is on order and major equipment such as trucks, front end loaders, etc. are being purchased. When the first pad is working to expectations, two more pads will be added as the plant is being built to handle 3,000 tons per day.

United Hearne must by contract with the Company commence production no later than May 31, 1980.

Ore reserves on the Mondongo Zone only have been calculated at 4,041,200 tons of 0.051 ounces of gold per ton which does not include ore to the north and west where drilling has indicated a further possible large deposit. Closer spaced drilling is required to the north and west for the ore to be classified as proven reserve. At Gold prices in an average range of $500.00 U.S. an ounce, and with a recovery rate of 80% and operating costs of $3.25 per ton, production of 3,000 tons per day based on 350 operating days would yield $18 million U.S. per annum in which event 40% or $7.2 million U.S. would accrue to the Company.

OSA Peninsula Placer Gold Property

The Company undertook to complete a drilling programme of 75 holes on property owned by Metro International Inc. along the Rio Tigre River on Costa Rica's Osa Peninsula for which it would earn a 60% interest in the property. A total of 49 holes and 12 pits were completed and tested and only one grouping of 4 holes could be considered a workable ore body containing 118,000 cubic meters averaging 0.56 grams of gold per cubic meter. The Company has until September 1, 1980 by which to complete the drilling programme. At the present time the Company does not anticipate drilling further holes.

UNITED STATES

Alaska Placer Gold Property

The Company acquired the entire 20% net interest of Whelan Mining and Exploration Inc. and the surrender of its management contract in the 2,260 acre placer gold property some 200 miles north of Fairbanks in Alaska's Chandalar Mining District. This acquisition was made for a consideration of a 2 year term non interest bearing debenture convertible into common shares of the Company at $3.35 the first year and $4.00 the second year, all subject to the approval of all regulatory bodies.

Jan Drew Holdings Ltd., which already own a 10.5% net interest in the property from a former agreement, acquired an additional 59.5% interest from the Company for a total consideration of $500,000.00, subject to the approval of all regulatory bodies. This consideration was in the form of a combination of forgiving the $250,000.00 debt owed by the Company, assumption of chattel mortgage on equipment and cash of $130,000.00. The Company has received the down payment of $25,000.00 and the payment due March 1, 1980 of an additional $25,000.00. The balance of $80,000.00 is due on November 1, 1980.

The Company has a buy back option to re-acquire a 30% net interest for a consideration of $300,000.00 which can be exercised at anytime before November 1, 1981.

Jan Drew Holdings Ltd. will be operator of the property and will provide the necessary working capital and operating funds for development and exploration in the 1980 season. The Company therefore is left in the position of earning 20% of profit after Jan Drew Holdings Ltd. recovers its capital and operating costs. The Company will not have to provide any risk capital and, in addition retains the right to increase its net interest to 50% after the exploration programme which is expected to be completed prior to the option expiry date of November 1, 1981.

MEXICO

Some positive progress has been achieved on the Company's El Palmarito Silver property. In late 1979 the Company commenced negotiations with a Group of Mexican Investors and the Director General of the Mining Development Commission for Mexico to develop our silver property on a joint venture basis. It is proposed that the Mexican Investors and Mining Development Commission would contribute $300,000.00 U.S. in exchange for 66⅔% net interest leaving the Company with approximately 27%, after satisfying a prior claim. The engineering department of the Mining Development Commission has not yet completed its study of the metallurgical and diamond drilling data, however from recent communications their interest is very encouraging.

A reserve of 1.5 million tons indicating 5.41 ounces of silver per ton has been established. This reserve consists of tailings, dumps and surface structures all amenable to open pit mining. From preliminary reports a 500/ton/day operation could be feasible as the property indicates further potential and would warrant additional exploration. At silver prices of $15.00 U.S. an ounce and a recovery rate of 77.5%, the gross value per ton is equal to $63.00 U.S.

A study has not yet been conducted of capital, direct and indirect mining and milling costs, but, estimated at $20.00, would produce a profit of $43.00 U.S. per ton. A 340 day operation of 500 tons per day would produce annual profits of $7.3 million and based on the above joint venture basis could earn the Company approximately $2 million annually.

The infusion of new capital by the Partners would finance a feasibility study and some site improvements and relieve the company of having to provide additional financing at least until the joint venture requires funding for construction of a mill.

CANADA & ARCTIC

A 7½% interest in oil and gas permits is held on 90,000 acres in the Ellesmere, Devon and Baffin Islands.There is no reported activity in the immediate area.

PROPERTIES SURRENDERED

The Company has surrendered the Guaitilar property in Costa Rica on the advise of its geologist as exploration did not prove successful. This property was not in any way connected with the Santa Clara Gold Mine Property.

FINANCIAL

The Company has strengthened its financial position during the past year. Assets increased by $375,000.00 to $1,515,106.00 at year end through receivables on the sale of an interest in property and further investments in permits, claims and leases. Current liabilities have decreased by $191,000.00 due to debenture issues classified as long term debt. Our working capital deficiency has improved by $306,000.00.

The Company is capitalized at 9,000,000 shares of which 4,071,606 are issued including 307,800 remaining in escrow. The number of shareholders has increased to 1,400 from 1,150 a year ago.

The year 1980 is projected to be one of major change for the Company. The Santa Clara Gold Mine should achieve production, a decision will be made on the El Palmarito Silver Mine in Mexico to either conclude the proposed joint venture or to proceed on some other basis, and the Alaska Placer Gold Mine will commence operation with spring break up. Your management will continue to keep the shareholders informed as to the progress.

On Behalf of the Board

E.K. Stephens
President

Auditors' Report

To the Shareholders of
Canadian Barranca Corporation Ltd.:

We have examined the consolidated balance sheet of Canadian Barranca Corporation Ltd., as at December 31, 1979 and the consolidated statements of deficit and of changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at December 31, 1979 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

DELIOTTE HASKINS & SELLS
Chartered Accountants

Edmonton, Alberta

January 16, 1980

Canadian Barranca Corporation Ltd.

(Under The Companies Act, Alberta)

Consolidated Balance Sheet as at December 31, 1979

(with prior year's figures for comparison)

ASSETS	1979	1978
CURRENT ASSETS:		
Cash	$ 9,513	$ —
Accounts receivable	105,000	—
Total current assets	114,513	—
INVESTMENTS (Note 2)	15,500	15,500
MINING PERMITS, CLAIMS AND LEASES (Schedule 1)	631,919	413,486
DEFERRED EXPLORATION, DEVELOPMENT AND ADMINISTRATION EXPENSES (Schedule 2)	753,174	711,532
TOTAL	$ 1,515,106	$ 1,140,518

LIABILITIES AND SHAREHOLDERS' EQUITY	Number of Shares	1979	1978
CURRENT LIABILITIES:			
Loans payable including accrued interest:			
Prime plus 2% bank loan		$ 100,460	$ 86,685
Prime plus 4% loan from shareholder		209,445	415,673
Accounts payable:			
Shareholders		10,864	10,864
Other		14,742	13,524
Total current liabilities		335,511	526,746
LONG-TERM DEBT (Note 3)		736,295	—
SHAREHOLDERS' EQUITY:			
Share capital:			
Authorized - 9,000,000 shares of no par value, the total issue price not to exceed $2,250,000			
Issued and fully paid:			
For cash	3,165,675	897,464	897,464
For mining claims	905,931	267,519	267,519
Total	4,071,606	1,164,983	1,164,983
Deficit		(721,683)	(551,211)
Net shareholders' equity		443,300	613,772
TOTAL		$ 1,515,106	$ 1,140,518

Approved by the Board:

.... Director

.... Director

The accompanying notes are an integral part of the financial statements.

Canadian Barranca Corporation Ltd.

Consolidated Statement of Deficit for the Year Ended December 31, 1979

(with prior year's figures for comparison)

	1979	1978
BALANCE AT BEGINNING OF THE YEAR	$ 551,211	$ 551,211
ADD:		
Mining claims abandoned	10,609	—
Exploration, development and administration expenses written off	159,863	—
BALANCE AT END OF THE YEAR	$ 721,683	$ 551,211

Consolidated Statement of Changes in Financial Position for the Year Ended December 31, 1979

(with prior year's figures for comparison)

	1979	1978
WORKING CAPITAL PROVIDED:		
Issuance of shares	$ —	$ 115,000
Issuance of debentures	700,000	—
	700,000	115,000
WORKING CAPITAL APPLIED:		
Mining claims purchased	229,042	309,615
Exploration, development and administrative expenses net of interest included in long-term debt of $36,295	165,210	139,980
Total	394,252	449,595
(INCREASE) DECREASE IN WORKING CAPITAL FOR THE YEAR	(305, 748)	334,595
WORKING CAPITAL DEFICIENCY AT BEGINNING OF THE YEAR	526,746	192,151
WORKING CAPITAL DEFICIENCY AT END OF THE YEAR	$ 220,998	$ 526,746

The accompanying notes are an integral part of the financial statements.

Canadian Barranca Corporation Ltd.

Notes to the Consolidated Financial Statements December 31, 1979

1. SIGNIFICANT ACCOUNTING POLICIES:

The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Canada, and reflect the following policies:

Basis of consolidation

The consolidated financial statements include the accounts of the company and its wholly-owned subsidiaries, Oro De Barranca Limitada, and Minera Saturno Limitada.

Mining properties

The company follows the full-cost method of accounting for mining properties wherein all costs relative to exploration and development, including administration, are capitalized. Under this method all costs are categorized by property and are transferred to deficit when the property is abandoned. All costs incurred to date represent costs associated with non-producing mines.

Foreign currencies

United States, Mexico and Costa Rica currency amounts included in these financial statements are translated to Canadian dollars as follows:

Current assets and all liabilities - at the rate of exchange prevailing at the year end.
Non-current assets - at the rate of exchange prevailing at the time of acquisition.
Income and expenses - at a rate approximating the rate of exchange prevailing on the dates of the transactions.

2. INVESTMENTS:

Investments consist of 1,225 Series "B" shares of Minerales Prisma S.A. de C.V. acquired for $15,500 cash (no quoted market value available).

The Series "B" shares represent 49% of the shares of Minerales Prisma S.A. de C.V., a company incorporated in Mexico to explore mineral claims known as El Palmarito. All advances to this company are included in the accounts of Canadian Barranca Corporation Ltd. as exploration and development expenses. In accordance with Mexican mining laws, the remaining 51% of the issued and outstanding shares are held by a resident of Mexico. These shares are subject to an agreement whereby another resident of Mexico can be designated by Canadian Barranca Corporation Ltd. to be the holder of this 51% interest in the future in exchange for 5% of the net profit from the properties held by Minerales Prisma S.A. de C.V.

3. LONG-TERM DEBT:

Long-term debt consists of the following convertible debentures:

Prime plus 2% debenture, principal and interest due July 16, 1981, convertible at the option of the holder in whole or in part to common shares of the company as follows:	
$2.30 per share if exercised on or before July 16, 1980;	
$2.55 per share if exercised on or before July 16, 1981	$536.295
Non-interest bearing debenture, due November 29, 1981, convertible at the option of the holder in whole or in part to common shares of the company as follows:	
$3.35 per share if exercised on or before November 29, 1980;	
$4.00 per share if exercised on or before November 29, 1981	200,000
	$736,295

Interest on this long-term debt for the year amounted to $36,295.
These debentures are secured by a floating charge over all assets of the corporation.

4. REMUNERATION OF DIRECTORS AND SENIOR OFFICERS:

The total direct remuneration paid to directors and senior officers of the company during the year amounted to $33,700 (1978 - $28,500).

5. COMPARATIVE FIGURES:

Certain of the prior year's figures, provided for the purpose of comparison, have been reclassified to conform to the current year's presentation.

Canadian Barranca Corporation Ltd.

Consolidated Schedule of Mining Permits, Claims and Leases as at December 31, 1979

(with prior year's figures for comparison)

SCHEDULE 1

	1979	1978
CANADIAN:		
100% interest in mineral claims in Ungava area of Quebec acquired for cash	$ 7,700	$ 7,700
7½% interest in oil and gas permits in the Arctic Archipelago acquired for cash	3,300	3,300
Total Canadian	11,000	11,000
FOREIGN:		
40% interest in exploration permits and denouncements in Costa Rica (known as the Santa Clara-Main and Camerones properties) acquired for $9,987 cash and 562,500 shares of capital stock of the company. This interest is subject to prior agreements which provided for future payments of $50,000 (United States funds) out of production and royalties equal to $.015 (U.S.) per ton of material extracted	351,502	351,502
100% interest, through a wholly-owned subsidiary, in an exploration permit in Costa Rica (known as the Santa Clara-Secondary property) acquired by amalgamation with Saturn Minerals Ltd.	4,897	4,897
60% interest, by joint venture, in exploration permits and denouncements in Costa Rica (known as Osa Peninsula properties) acquired by cash	64,520	—
20% interest, by joint venture, in exploration of leased properties in the Chandalar mining district of Alaska acquired by issue of convertible debenture (Note 3). This interest is subject to an option, exercisable in two stages and within time constraints; to increase their interest to 50% by payment of $300,000	200,000	35,478
100% interest, through a wholly owned subsidiary, in exploration permits and denouncements in Costa Rica (known as the Guaitilar property) acquired for cash (abandoned during the year)	—	10,609
Total Foreign	620,919	402,486
TOTAL	$ 631,919	$ 413,486

Consolidated Schedule of Deferred Exploration, Development and Administration Expenses For the Year Ended December 31, 1979

SCHEDULE 2

	December 31, 1978	Expenditures for the Year	Transfer to Deficit	December 31, 1979
EXPLORATION AND DEVELOPMENT:				
Foreign:				
Costa Rica:				
Santa Clara	$ 88,813	$ —	$ —	$ 88,813
Guaitilar	76,447	—	76,447	—
Mexico:				
El Palmarito	144,581	3,015	—	147,596
Total Foreign	309,841	3,015	76,447	236,409
Canadian:				
Ungava	48,187	250	—	48,437
Arctic Archipelago	2,060	—	—	2,060
Total Canadian	50,247	250	—	50,497
Total exploration and development	360,088	3,265	76,447	286,906
ADMINISTRATION:				
Consulting fees	54,826	28,171	11,639	71,358
Depreciation	1,507	—	320	1,187
Directors meetings	1,664	1,550	353	2,861
Interest and exchange	68,182	101,486	14,475	155,193
Miscellaneous	3,626	601	770	3,457
Office expense	24,782	8,061	5,261	27,582
Office salaries	45,119	37,342	9,579	72,882
Professional fees	113,047	18,469	24,000	107,516
Rent	20,615	7,543	4,377	23,781
Telephone and telegraph	20,614	3,414	4,376	19,652
Transfer agent fees	19,053	6,935	4,045	21,943
Travel and promotion	19,883	7,577	4,221	23,239
Total administration	392,913	221,149	83,416	530,651
Less expenses recovered	41,474	22,909	—	64,383
Net administration	351,444	198,240	83,416	466,268
	$ 711,532	$ 201,505	$ 159,863	$ 753,174

Consolidated Schedule of Cost of Claims and Investments Related Deferred Exploration Development and Administration Costs Categorized by Property December 31, 1979

SCHEDULE 3

	Original Cost	Exploration and Development	Administration	Expenses Recovered	Total
FOREIGN:					
Costa Rica:					
Santa Clara	$ 356,399	$ 88,813	$ 202,289	$ 41,474	$ 606,027
Osa Peninsula	64,520	—	15,271	—	79,791
Mexico:					
El Palmarito	15,500	147,596	196,367	—	359,463
United States:					
Alaska	200,000	—	47,339	22,909	224,430
Total Foreign	636,419	236,409	461,266	64,383	1,269,711
CANADIAN:					
Ungava	7,700	48,437	65,867	—	122,004
Arctic Archipelago	3,300	2,060	3,518	—	8,878
Total Canadian	11,000	50,497	69,385	—	130,882
	$ 647,419	$ 286,906	$ 530,651	$ 64,383	$ 1,400,593

NOTE: Administration costs incurred prior to December 31, 1978 are allocated to properties in proportion to the exploration and development costs incurred on each property. Administration costs incurred subsequent to that date are allocated to properties in proportion to the sum of the original cost and the exploration and development costs incurred on each property. All other costs and expense recoveries are direct charges to the properties.